

5 August 2019

Trust in water

Variation of Icosa Water Services Limited's appointment to include Paula Rosa, Robell Way in Storrington, West Sussex

1. About this document

Variation of Icosa Water Services Limited's appointment to include Paula Rosa, Robell Way in Storrington, West Sussex

On 4 July 2019, Ofwat began a [consultation on a proposal](#) to vary Icosa Water Services Limited's (**Icosa Water**) appointment to become the sewerage services provider for a development in Southern Water Services Limited's (**Southern Water**) sewerage services area called Paula Rosa, Robell Way in Storrington, West Sussex (**"the Site"**).

The consultation ended on 1 August 2019. During the consultation period, we received representations from one organisation, which we considered in making our decision. On 2 August 2019, we granted Icosa Water a variation to its existing appointment to enable it to provide sewerage services to the Site.

This notice gives our reasons for making this variation.

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2. Introduction

The new appointment and variation mechanism, specified by Parliament and set out in primary legislation, allows one company to replace the current company as the provider of water and/or sewerage services for a specific area. This mechanism can be used by new companies to enter the market and by existing companies to expand into areas where they are not the appointed company. In this case, Icosa Water applied to replace Southern Water to become the appointed sewerage company for the Site.

A company may apply for a new appointment (or a variation of its existing appointment to serve an additional site) if any of the following three criteria are met:

- None of the premises in the proposed area of appointment is served by the existing appointed company at the time the appointment is made (the **“unserved criterion”**);
- Each premises is likely to be supplied with at least 50 mega litres per year (in England) or at least 250 mega litres per year (in Wales) and the customer in relation to each premises consents (**“the large user criterion”**);
- The existing water and sewerage supplier in the area consents to the appointment (**“the consent criterion”**).

When considering applications for new appointments and variations, Ofwat operates within the statutory framework set out by Parliament, including our duty to protect consumers, wherever appropriate by promoting effective competition. In particular, we seek to ensure that the future customers on the site – who do not have a choice of supplier – are adequately protected. When assessing applications for new appointments and variations, the two key policy principles we apply are:

1. Customers, or future customers, should be no worse off than if they had been supplied by the existing appointee; and
2. We must be satisfied that an applicant will be able to finance the proper carrying out of its functions as a water and/or sewerage company.

Entry and expansion (and even the threat of such by potential competitors) can lead to benefits for different customers (such as household and business customers and developers of new housing sites). Benefits can include price discounts, better

services, environmental improvements and innovation in the way services are delivered.

Benefits can also accrue to customers who remain with the existing appointee, because when the existing appointee faces a challenge to its business, that challenge can act as a spur for it to improve its services. We believe the wider benefits of competition through the new appointments and variations mechanism can offset any potential disbenefits for existing customers that might arise. We consider these potential disbenefits in more detail below.

3. The application

Icosa Water applied to be the sewerage services appointee for the Site under the consent criterion set out in section 7(4)(a) of the Water Industry Act 1991 (“**WIA91**”). Icosa Water will serve the Site by way of a bulk discharge agreement.

3.1 The consent criterion

To qualify under the consent criterion, an applicant must provide a letter of consent from the existing appointee consenting to the application and consenting to the variation of its area of appointment corresponding to the applicant's application.

We have an email from Southern Water dated 17 May 2019 confirming that it consents to Icosa Water taking over the Site.

We are therefore satisfied that the application meets the consent criterion.

3.2 Financial viability of the proposal

We will only make an appointment if we are satisfied that the proposal poses a low risk of being financially non-viable. We have assessed financial viability of this application on a portfolio basis with three other applications (Marringdean Road, Springhead Park and Rush Lane), all of which have already been granted. We considered that the four sites together are likely to be financially viable.

On this basis, we concluded that the risk of this Site not being financially viable is small and as a result we are currently satisfied that Icosa Water would be able to finance its functions if the variation is granted.

3.3 Assessment of ‘no worse off’

Icosa Water proposes to match the charges of Southern Water to customers on the Site, that is, it will not offer a discount.

With regard to service levels, we have reviewed Icosa Water's Codes of Practice and its proposed service levels and compared these to the Codes of Practice and the performance commitments of Southern Water. Based on this review, we are satisfied that customers will be offered an appropriate level of service by Icosa Water and that overall customers will be ‘no worse off’ being served by Icosa Water instead of by Southern Water.

3.4 Effect of appointment on Southern Water's customers

In considering whether customers will be no worse off, we also looked at the potential effects of this variation on the price that Southern Water's existing customer base may face.

The calculation necessarily depends on a range of assumptions, and there are clearly difficulties involved in quantifying the effect on customers of Southern Water. It is therefore necessary to use a simplified set of figures. We have expressed the effect in 'per bill' terms to try and quantify the possible effect in an easily understandable way. Broadly, we have assessed the potential magnitude of this impact by comparing how much Southern Water might have expected to receive in revenue from serving the Site directly, were it to serve the Site, with the revenues it might expect from the proposed arrangement with Icosa Water.

In this case, we have calculated that if we grant the Site to Icosa Water, there may be a potential impact on the bills of Southern Water's existing customers of £0.001.

This impact does not take into account the potential spillover benefits to customers arising from dynamic efficiencies achieved as a result of the competitive process to win new sites.

3.5 Developer choice

Where relevant, we take into consideration the choices of the site developer. In this case, Barratt Homes (BDW) Southern Counties said that it wants Icosa Water to be the sewerage company for the Site.

4. Responses received to the consultation

We received one response to our consultation, from the Consumer Council for Water (CCWater). We considered this response before making the decision to vary Icosa Water's appointment. The points raised in the response are set out below.

4.1 CCWater

CCWater stated it expect to see NAV appointments resulting in tangible benefits to customers, and that it is disappointed that there is no direct financial benefit to customers from having Icosa Water as their provider of sewerage services, rather than Southern Water. However, it noted that Icosa Water improves on most of the service standards provided by Southern Water, and supports this application for this reason.

CCWater also noted there will be a small cost passed on to the incumbent's existing customers, and that while this is very low, Ofwat has provided no evidence of significant benefit to those customers.

CCWater also agreed that given Icosa Water's relatively small size and customer base, it may be appropriate for it to tailor some of the services that it provides. CCWater noted that until Icosa Water can provide a formal social tariff, however, it would expect Icosa Water to offer appropriate, flexible support to any individual customers in financial difficulty who would otherwise benefit from a social tariff and that this should not be at the expense of its other customers since Icosa water is not currently in a position to research the views of its customers on cross-subsidy.

5. Conclusion

Having assessed Icosa Water's application, and having taken account of the response we received to our consultation, we decided to grant a variation to Icosa Water's area of appointment to allow it to serve the Site for sewerage services. This appointment became effective on 3 August 2019.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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